

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
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March 5, 2007

Mr. Richard C. Cooke
Cooke Management Company, Inc.
Post Office Box 808
Lake View, South Carolina 29563

Re: AC# 3-FLR-J3 – Cooke Associates of Florence, Inc.

Dear Mr. Cooke:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2002 through September 30, 2003. That report was used to set the rate covering the contract period beginning October 1, 2004.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Home Health and Nursing Facility Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976, as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Yours very truly,

A handwritten signature in cursive script, reading "Richard H. Gilbert, Jr.", written in dark ink.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

COOKE ASSOCIATES OF FLORENCE, INC.

FLORENCE, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2004
AC# 3-FLR-J3**

AGREED-UPON PROCEDURES REPORT

ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 28, 2006

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Cooke Associates of Florence, Inc., for the contract period beginning October 1, 2004, and for the twelve month cost report period ended September 30, 2003, as set forth in the accompanying schedules. The management of Cooke Associates of Florence, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Cooke Associates of Florence, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Summary of Costs and Total Patient Days, Adjustment Report, Cost of Capital Reimbursement Analysis and the Comments and Recommendations sections of this report .
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Cooke Associates of Florence, Inc. dated as of October 1, 2001, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
September 28, 2006

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

COOKE ASSOCIATES OF FLORENCE, INC.

Computation of Rate Change
For the Contract Period
Beginning October 1, 2004
AC# 3-FLR-J3

10/01/04-
09/30/05

Interim Reimbursement Rate (1)	\$133.63
Adjusted Reimbursement Rate	<u>120.40</u>
Decrease in Reimbursement Rate	\$ <u><u>13.23</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing as of March 1, 2006.

COOKE ASSOCIATES OF FLORENCE, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2004 Through September 30, 2005
AC# 3-FLR-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 60.25	\$ 70.36	
Dietary		11.76	12.42	
Laundry/Housekeeping/Maintenance		<u>10.19</u>	<u>11.28</u>	
Subtotal	<u>\$6.58</u>	82.20	94.06	\$ 82.20
Administration & Medical Records	<u>\$5.80</u>	<u>8.85</u>	<u>14.65</u>	<u>8.85</u>
Subtotal		91.05	<u>\$108.71</u>	91.05
<u>Costs Not Subject to Standards:</u>				
Utilities		2.74		2.74
Special Services		-		-
Medical Supplies & Oxygen		8.92		8.92
Taxes and Insurance		4.26		4.26
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$106.97</u>		106.97
Inflation Factor (4.70%)				5.03
Cost of Capital				7.29
Cost of Capital Limitation				(.64)
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.74
Cost Incentive				6.58
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(8.57)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$120.40</u>

COOKE ASSOCIATES OF FLORENCE, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-FLR-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$1,967,042	\$ -	\$ 5,536 (2) 99,318 (12) 3,137 (12) 1,097 (13)	\$1,857,954
Dietary	380,889	-	11,779 (12) 1,303 (13) 5,229 (14)	362,578
Laundry	57,679	-	3,130 (12)	54,549
Housekeeping	140,996	-	7,971 (12) 112 (13)	132,913
Maintenance	168,974	-	1,754 (1) 16,151 (4) 17,996 (5) 3,638 (12) 2,622 (13)	126,813
Administration & Medical Records	332,359	-	8,073 (6) 5,565 (7) 7,506 (12) 829 (12) 37,378 (13)	273,008
Utilities	92,268	-	1,541 (8) 208 (13) 5,969 (14)	84,550
Special Services	-	19,916 (11)	6,925 (12) 12,990 (15)	1
Medical Supplies & Oxygen	422,061	-	121,541 (10) 19,916 (11) 5,587 (12) 1 (15)	275,016

COOKE ASSOCIATES OF FLORENCE, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-FLR-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Taxes and Insurance	126,107	5,895 (9)	610 (13)	131,392
Legal Fees	-	-	-	-
Cost of Capital	205,053	6,290 (1) 770 (3) 402 (4) 1,538 (5) 475 (6) 2,172 (7) 944 (10) <u>7,896 (16)</u>	625 (13)	224,915
Subtotal	3,893,428	46,298	416,037	3,523,689
Ancillary	-	-	-	-
Nonallowable	592,398	4,826 (5) 8,073 (6) 1,541 (8) 867 (9) 106,006 (10) 149,820 (12) 43,955 (13) 11,198 (14) 12,991 (15)	4,536 (1) 7,896 (16)	919,243
Total Operating Expenses	<u>\$4,485,826</u>	<u>\$385,575</u>	<u>\$428,469</u>	<u>\$4,442,932</u>
Total Patient Days	<u>30,835</u>	<u>-</u>	<u>-</u>	<u>30,835</u>

Total Beds 88

COOKE ASSOCIATES OF FLORENCE, INC.
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-FLR-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$76,200	
	Cost of Capital	6,290	
	Accumulated Depreciation		\$31,836
	Other Equity		44,364
	Maintenance		1,754
	Nonallowable		4,536
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Retained Earnings	5,536	
	Nursing		5,536
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
3	Fixed Assets	7,704	
	Cost of Capital	770	
	Accumulated Depreciation		770
	Retained Earnings		7,704
	To capitalize fixed asset and record related depreciation HIM-15-1, Section 108.1		
4	Fixed Assets	16,151	
	Cost of Capital	402	
	Accumulated Depreciation		402
	Maintenance		16,151
	To capitalize fixed assets and record related depreciation HIM-15-1, Section 108.1		
5	Fixed Assets	18,220	
	Cost of Capital	1,538	
	Nonallowable	4,826	
	Accumulated Depreciation		1,580
	Retained Earnings		5,008
	Maintenance		17,996
	To capitalize fixed assets and record related depreciation and disallow expense not related to patient care HIM-15-1, Sections 108.1 and 2102.3		

COOKE ASSOCIATES OF FLORENCE, INC.
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-FLR-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Fixed Assets	2,376	
	Cost of Capital	475	
	Nonallowable	8,073	
	Accumulated Depreciation		475
	Retained Earnings		2,376
	Administration		8,073
	To capitalize fixed assets and record related depreciation expense and reclassify expense to proper cost center HIM-15-1, Section 108.1 DH&HS Expense Crosswalk		
7	Fixed Assets	21,720	
	Cost of Capital	2,172	
	Accumulated Depreciation		5,258
	Lease Payable		7,791
	Other Equity		5,278
	Administration		5,565
	To capitalize fixed assets and record related depreciation HIM-15-1, Section 110		
8	Nonallowable	1,541	
	Utilities		1,541
	To reclassify expense to the proper cost center and disallow cable television expense HIM-15-1, Sections 2103 and 2106.1 DH&HS Expense Crosswalk		
9	Other Equity	2,567	
	Nonallowable	867	
	Taxes and Insurance	5,895	
	Prepaid Insurance		2,820
	Retained Earnings		6,509
	To adjust liability and general insurance expense HIM-15-1, Sections 2302.1 and 2304		

COOKE ASSOCIATES OF FLORENCE, INC.
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-FLR-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Fixed Assets	11,329	
	Retained Earnings	4,206	
	Cost of Capital	944	
	Nonallowable	106,006	
	Accumulated Depreciation		944
	Medical Supplies		121,541
	To capitalize fixed assets and record related depreciation, reclassify expense to the proper cost center, properly charge expense applicable to the prior period, disallow expense due to lack of documentation, and remove duplicate postings of expense HIM-15-1, Sections 108.1, 2302.1 and 2304 DH&HS Expense Crosswalk		
11	Special Services	19,916	
	Medical Supplies		19,916
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
12	Nonallowable	149,820	
	Nursing		99,318
	Restorative		3,137
	Dietary		11,779
	Laundry		3,130
	Housekeeping		7,971
	Maintenance		3,638
	Administration		7,506
	Medical Records		829
	Medical Supplies		5,587
	Special Services		6,925
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

COOKE ASSOCIATES OF FLORENCE, INC.
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-FLR-J3

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
13	Nonallowable	43,955	
	Nursing		1,097
	Dietary		1,303
	Housekeeping		112
	Maintenance		2,622
	Administration		37,378
	Utilities		208
	Taxes and Insurance		610
	Cost of Capital		625
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
14	Nonallowable	11,198	
	Dietary		5,229
	Utilities		5,969
	To remove expense not related to		
	patient care		
	HIM-15-1, Sections 2102.3 and 2328		
15	Nonallowable	12,991	
	Special Services		12,990
	Medical Supplies		1
	To adjust special (ancillary)		
	services reimbursed by Medicare		
	State Plan, Attachment 4.19D		

COOKE ASSOCIATES OF FLORENCE, INC.
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-FLR-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
16	Cost of Capital Nonallowable	7,896	7,896
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$551,584</u>	<u>\$551,584</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

COOKE ASSOCIATES OF FLORENCE, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-FLR-J3

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.63785</u>
Deemed Asset Value (Per Bed)	41,198
Number of Beds	<u>88</u>
Deemed Asset Value	3,625,424
Improvements Since 1981	653,774
Accumulated Depreciation at 9/30/03	<u>(837,752)</u>
Deemed Depreciated Value	3,441,446
Market Rate of Return	<u>.0531</u>
Total Annual Return	182,741
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	182,741
Depreciation Expense	42,174
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	224,915
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>
Cost of Capital Per Diem	\$ <u><u>7.29</u></u>

COOKE ASSOCIATES OF FLORENCE, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-FLR-J3

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$2.66
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$6.65</u>
Reimbursable Cost of Capital Per Diem	\$6.65
Cost of Capital Per Diem	<u>7.29</u>
Cost of Capital Per Diem Limitation	<u>\$(.64)</u>

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified certain conditions that we have determined to be subject to correction or improvement. We believe these conditions should be brought to your attention.

TRANSACTION CLASSIFICATION

The Provider classified a significant number of transactions to improper accounts and cost centers.

Guidance for the proper classification of transactions is provided in the South Carolina Department of Health and Human Services Medicaid Nursing Home Accounting and Reporting Manual (Expense Crosswalk), the State Plan under Title XIX of the Social Security Act, Medicaid Bulletins and South Carolina Department of Health and Human Services directives.

By failing to classify transactions in accordance with the administering agency's guidelines, the Provider misstated several accounts and cost centers.

We recommend the Provider establish and implement necessary controls to ensure that all transactions are properly classified in accordance with South Carolina Department of Health and Human Services guidelines.

MEAL AND VENDING MACHINE SALES

Income from meal and vending machine sales was not deposited in the facility operating account. Funds generated from these sales were retained by the owners and used to make minor purchases for the facility, similar to a petty cash fund.

A system of good internal accounting control requires that all cash received be deposited intact.

By failing to deposit these receipts, the Provider is unable to readily document income derived from meal sales and vending machines, and has understated income and overstated reimbursable expenses.

We recommend the Provider establish and implement the necessary controls to ensure that all cash received is deposited timely and intact.

2 copies of this document were published at an estimated printing cost of \$1.52 each, and a total printing cost of \$3.04. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.